

## APPENDIX

## ALTERNATIVE DIRECTIVE LANGUAGE

Specification of the behavior of M1 over the balance of the year is subject to unusually great uncertainties because it will be substantially affected by special circumstances -- in the very near-term by investment of funds in maturing all-savers certificates and later by the public's response to the new account(s) directly competitive with money market funds mandated by recent legislation. The probable difficulties in interpretation of M1 during the period suggest substantial weight not be placed on movements in that aggregate during the current quarter. These uncertainties are expected to affect M2 and other broader aggregates to a much lesser extent.

In all the circumstances, the Committee seeks to maintain expansion in bank reserves needed for an orderly and sustained flow of money and credit taking account of the desirability of somewhat reduced pressures in private credit markets in the light of current economic conditions. It expects that this would involve growth of M2 (and M3) in a range of around 8-1/2 to 9-1/2 percent at an annual rate from September to December. Somewhat slower growth, bringing those aggregates around the upper part of the ranges set for the year, would be acceptable and desirable in a context of declining interest rates. Somewhat more rapid growth in the broader aggregates would be tolerated in the light of evidence that economic and financial uncertainties are continuing to lead to exceptional liquidity demands.